

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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DATE: JUNE 19, 2003
TO: DIRECTOR, DIVISION OF THE COMMISSION ADMINISTRATIVE SERVICES (BAYÓ)
FROM: OFFICE OF THE GENERAL COUNSEL (MOORE) DIVISION OF ECONOMIC REGULATION (MAILHOT, HEWITT)
RE: DOCKET NO. 030405-TL - PROPOSED AMENDMENTS TO RULES 25-4.017, 25-4.0405, 25-4.135, AND REPEAL OF RULES 25-4.1352 AND 25-4.1357, F.A.C.
AGENDA: JULY 1, 2003 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE
RULE STATUS: PROPOSAL MAY BE DEFERRED
SPECIAL INSTRUCTIONS: NONE
FILE NAME AND LOCATION: S:\PSC\APP\WP\030405.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should Rules 25-4.017, 25-4.0405, and 25-4.135, Florida Administrative Code, be amended and Rules 25-4.1352 and 25-4.1357, Florida Administrative Code, be repealed?

RECOMMENDATION: Yes.

STAFF ANALYSIS: Rules 25-4.017, 25-4.0405, 25-4.135, 25-4.1352 and 25-4.1357 were last revised in 1996, in response to the 1995 changes in Chapter 364, Florida Statutes, governing the regulation of telecommunications companies. The 1995 changes required the Commission to streamline its reporting requirements for small local exchange companies that remained under rate base, rate-of-return regulation. § 364.052(2)(b), Fla. Stat. Since 1996, all but one small local exchange company has elected price cap regulation. The one remaining rate-of-return regulated company is the smallest,

DOCUMENT NUMBER 030405

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therefore staff recommends simplifying our reporting requirements even further.

Rule 25-4.017, which requires each telecommunications company to maintain its accounts and records in conformity with the Uniform System of Accounts (USOA) as prescribed by the Federal Communications Commission, should be amended to update the reference to the most recent version of the USOA which is dated October 1, 2002.

Rule 25-4.0405, governing the ratemaking treatment of telephone directory advertising revenues, should be amended to eliminate the names of companies to which the rule no longer applies.

Rule 25-4.135 should be amended to update the reference to revised Commission Form PSC/ECR 018-T, entitled "Annual Report of Local Exchange Telephone Companies." Some schedules have been deleted, while other schedules have been consolidated. In addition, the Earnings Surveillance Report has been merged with the Annual Report in an effort to simplify the reporting requirements. Due to the small size of Florida's only rate-of-return regulated local exchange company, the rule should also be amended to remove the requirement for the company to file an audit report by an independent certified public accountant. Because of its small size it is difficult to justify the cost of an audit that would provide little benefit to the Commission. If this company files for a rate increase the Commission will audit its records at that time. An explanation of the meaning of the term "good cause" is added to address the anticipated comment of the Joint Administrative Procedures Committee staff attorney that the term is otherwise vague and without adequate standards.

Rule 25-4.1352, which requires an earnings surveillance report, should be repealed because the report has been incorporated as part of Commission Form PSC/ECR 018-T, the Annual Report, as adopted by Rule 25-4.135. In an effort to streamline the reporting requirements, the earnings surveillance report will be filed on an annual basis as part of the annual report instead of semiannually.

Rule 25-4.1357, requiring companies that conduct an Annual Separations Cost Study to file a copy with the Commission, should

DOCKET NO. 030405-TL

DATE: June 19, 2003

be repealed. A copy of the cost study can be requested if and when the need arises, such as for a rate proceeding.

A notice of rule development containing the recommended changes to these rules was published in the March 14, 2003, edition of the Florida Administrative Weekly. No request for a rule development was received.

Statement of Estimated Regulatory Costs: There should be no additional costs and no significant negative impacts as a result of amending or repealing the rules because the changes simplify and reduce reporting requirements. Therefore, no Statement of Estimated Regulatory Costs (SERC) was prepared.

ISSUE 2: If no requests for hearing or comments are filed, should the proposed rule amendments be filed for adoption with the Secretary of State and the docket be closed?

RECOMMENDATION: Yes.

STAFF ANALYSIS: Unless comments or requests for hearing are filed, the rule as proposed may be filed with the Secretary of State without further Commission action. The docket may then be closed.

Attachments:

Rules

Memorandum regarding Statement of Estimated Regulatory Costs

CTM/

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4 **25-4.017 Uniform System of Accounts.**

5 (1) Each rate-of-return regulated local exchange
6 telecommunications company shall maintain its accounts and records
7 in conformity with the Uniform System of Accounts for
8 Telecommunications Companies (USOA) as prescribed by the Federal
9 Communications Commission in Title 47, Code of Federal Regulations,
10 Part 32 Class A, revised as of October 1, 2002 ~~1994~~, and as
11 modified below. Inquiries relating to interpretation of the USOA
12 shall be submitted in writing to the Commission's Division of
13 Economic Regulation.

14 (2) Each company shall establish separate depreciation
15 reserve subaccounts for each corresponding subaccount established
16 in the USOA or by rules of this Commission.

17 (3) A telecommunications company may use a different account
18 numbering system but shall use the same account descriptions as
19 prescribed in the USOA or by this Commission. If a different
20 account numbering system is used, a cross reference of the
21 company's system to the Commission's numbering system shall be
22 shown in the company's chart of accounts.

23 (4) Each company shall file, within 60 days of a final order
24 involving accounting matters, a description of all resultant
25 entries and adjustments to the accounting records.

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003

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4 Specific Authority: 350.127(2), F.S.

5 Law Implemented: 350.115, 364.17, F.S.

6 History: Revised 12/1/68, Amended 3/31/76, 8/21/79, 1/2/80,
7 12/13/82, 12/13/83, 9/30/85, formerly 25-4.17, Amended 11/30/86,
8 4/25/88, 2/10/92, 8/11/92, 3/10/96, _____.

9 **25-4.0405 Telephone Directory Advertising Revenues.**

10 (1) The provisions of this rule, in conjunction with the
11 provisions of Section 364.037, Florida Statutes (2002) ~~(1995)~~,
12 shall govern the ratemaking treatment for telephone directory
13 advertising revenues and expenses of rate-of-return regulated local
14 exchange telecommunication companies.

15 (2) Adjustments under Section 364.037(1) for customer growth
16 and Consumer Price Index shall be calculated in accordance with
17 paragraph (2)(a), producing a Test Year Regulated Gross Profit.
18 Except as provided in paragraph (2)(e), the Test Year Regulated
19 Gross Profit shall be used to establish the test year gross profit
20 from directory advertising in the local franchise area to be
21 considered in setting rates for telecommunications service.

22 (a) The Test Year Regulated Gross Profit is determined as
23 follows: Test Year Regulated Gross Profit = 1982 Gross Profit Base
24 x Customer Growth Factor x CPI factor.

25 (b) The Customer Growth Factor is determined as follows:

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003

3
4 Customer Growth Factor = Average test year access lines
5 Average 1982 access lines.

6 (c) The CPI Factor reflects CPI adjustments made using the
7 annual average Consumer Price Index - All Urban (CPI-U) as follows:

$$\begin{aligned} \text{CPI Factor} &= \text{Annual average CPI-U for test year} \\ &96.5 \end{aligned}$$

9
10 (d) An access line is any exchange line that provides
11 residential or business service as follows:

- 12 1. Residential lines;
- 13 2. Business lines;
- 14 3. Centrex lines;
- 15 4. PBX trunks; or
- 16 5. Key system lines.

17 (e) When the Test Year Regulated Gross Profit is less than
18 two-thirds of the actual test year gross profit from directory
19 advertising, two-thirds of the actual test year gross profit shall
20 be used. When the Test Year Regulated Gross Profit is greater than
21 the actual test year gross profit from directory advertising, the
22 actual test year gross profit shall be used.

23 (f) Each local exchange company shall record its directory
24 advertising revenues in revenue account 5230 (Directory Revenues)
25 and shall record its directory advertising expenses in expense

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003
3

4 account 6622 (Number Services). Only those expenses formerly
5 recorded in expense account 649 (Directory Expense) shall be
6 recorded in expense subaccount 6622.1. The actual test year gross
7 profit from telephone directory advertising shall be determined by
8 subtracting the amount recorded in expense subaccount 6622.1 from
9 the amount recorded in revenue account 5230, with such adjustments
10 as the Commission deems appropriate.

11 (g) Directory advertising revenues, as used in this rule,
12 shall include revenue from both yellow page advertising, including
13 national advertising, and any boldface or other highlighted white
14 page listings for directories within the franchised area of the
15 exchange telephone company. Directory advertising expenses, as
16 used in this rule, shall include expenses incurred in furnishing
17 directories.

18 (3) The dollar amount of the 1982 Gross Profit Base for each
19 local exchange telephone company is established pursuant to Section
20 364.037(3) as follows:

<u>Local Exchange Company</u>	<u>1982 Gross Profit Base</u>
ALLTEL Florida, Inc.	\$299,380
Floral Telephone Company, Inc.	\$1,780
Gulf Telephone Company	\$54,794
Indiantown Telephone System, Inc.	\$28,319

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003
3

4	Northeast Florida Telephone Company,	\$20,676
5	Inc.	\$68,580
6	Quincy Telephone Company	
7	St. Joseph Telephone and Telegraph	\$148,538
8	Company	
9	Southern Bell Telephone & Telegraph	\$102,215,043
10	Company-Florida	\$8,830
11	Frontier Telephone Company	\$161,840
12	Vista-United Telecommunications	

13 (4) The Average 1982 Access Lines for each local exchange
14 telephone company is as follows:

15	<u>Local Exchange Company</u>	<u>1982 Average Access Lines</u>
16	ALLTEL Florida, Inc.	36,435
17	Floralta Telephone Company, Inc.	1,417
18	Gulf Telephone Company	5,934
19	Indiantown Telephone System, Inc.	1,501
20	Northeast Florida Telephone	
21	Company, Inc.	3,874
22	Quincy Telephone Company	7,089
23	St. Joseph Telephone and Tele-	
24	graph Company	16,229

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003

3
4 ~~Southern Bell Telephone & Tele-~~
5 ~~graph Company - Florida~~ 2,993,084
6 Frontier Telephone Company 2,279
7 ~~Vista-United Telecommunications~~ 1,706

8 Specific Authority: 350.127(2), F.S.

9 Law Implemented: 364.037, F.S.

10 History: New 4/21/86, formerly 25-4.405, Amended 4/25/88, 3/10/96,
11 _____.

12 **25-4.135 Annual Reports.**

13 (1) Each rate-of-return regulated local exchange telephone
14 company shall file annual reports with the Commission on Commission
15 Form PSC/ECR 018-T (/)(3/96) which is incorporated by reference
16 into this rule. Form PSC/ECR 018-T, entitled "Annual Report of
17 Local Exchange Telephone Companies", may be obtained from the
18 Commission's Division of Economic Regulation. These reports shall
19 be verified by a responsible accounting officer of the company
20 making the report and shall be due on or before April 30 for the
21 preceding calendar year. A company may file a written request for
22 an extension of time with the Division of Economic Regulation no
23 later than April 30. One extension of 31 days will be granted upon
24 request. A request for Commission approval of a longer extension
25 must be accompanied by a statement of good cause and shall specify

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003

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4 the date by which the report will be filed. Good cause means a
5 demonstration that the company has worked diligently to prepare the
6 report and that the additional time period requested to complete
7 and submit the report is both reasonable and necessary given the
8 company's particular circumstances.

9 ~~(2) The company shall also file with the original and each~~
10 ~~copy of the annual report form, or separately within 30 days, a~~
11 ~~letter or report, signed by an independent certified public~~
12 ~~accountant, attesting to the conformity in all material respects of~~
13 ~~the following schedules and their applicable notes of Form PSC/ECR~~
14 ~~18 with the Commission's applicable uniform system of accounts and~~
15 ~~published accounting releases.~~

16 ~~(a) Schedule B-1 Balance Sheet,~~

17 ~~(b) Schedule B-2 Statement of Cash Flows, and~~

18 ~~(c) Schedule I-1 Income Statement.~~

19 ~~(3) (a) Each company shall file with the Commission an audit~~
20 ~~report issued by an independent auditor commenting on the company's~~
21 ~~compliance with its Cost Allocation Manual (CAM) or written~~
22 ~~accounting procedures for nonregulated operations. Beginning~~
23 ~~January 1, 1996, the compliance audit shall be performed no less~~
24 ~~than once every three years. The audit report shall be filed with~~
25 ~~the annual report or within 30 days of filing the annual report.~~

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003

3
4 ~~(b) Each company shall file, along with the audit report, a~~
5 ~~list of all incidents of non-compliance with the CAM or written~~
6 ~~accounting procedures for nonregulated operations. This list shall~~
7 ~~include all errors and irregularities detected by the independent~~
8 ~~auditor during the audit, regardless of materiality.~~

9 ~~(c) The expense of the audit shall be separately identified~~
10 ~~and shall not be chargeable to expense for ratemaking purposes.~~
11 ~~The Commission may, upon sufficient showing, modify or waive these~~
12 ~~requirements.~~

13 Specific Authority: 350.127(2), F.S.

14 Law Implemented: 364.17, F.S.

15 History: New 12/27/94, amended 3/10/96,_____.

16 **25-4.1352 Earnings Surveillance Report.**

17 ~~(1) Each rate-of-return regulated local exchange telephone~~
18 ~~company shall file rate of return data using Commission Form~~
19 ~~PSC/ECR 15 (3/96), which is incorporated by reference into this~~
20 ~~rule. Form PSC/ECR 15, entitled "Telephone Earnings Surveillance~~
21 ~~Report," may be obtained from the Commission's Division of~~
22 ~~Economic Regulation.~~

23 ~~(2) The report shall be filed semiannually, by the 15th day~~
24 ~~of the second month following the reported period.~~

25 ~~(3) A company may file a written request for an extension of~~

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1 DOCKET NO. 030405-TL
2 DATE: June 19, 2003

3
4 ~~time with the Division of Economic Regulation prior to the due date~~
5 ~~of the report. One extension of 31 days shall be granted upon~~
6 ~~request. A request for Commission approval of a longer extension~~
7 ~~must be accompanied by a statement of good cause and shall specify~~
8 ~~the date by which the report shall be filed.~~

9 Specific Authority: 350.127(2), F.S.

10 Law Implemented: 364.03(1), 350.117(1), F.S.

11 History: New 11/18/82, formerly 25-4.245, Amended 8/21/90,
12 formerly 25-4.0245, Amended 6/10/94, 3/10/96, Repealed.

13 **25-4.1357 Annual Separations Cost Study**

14 ~~(1) Each rate-of-return regulated local exchange telephone~~
15 ~~company that conducts a cost study on an annual basis shall file a~~
16 ~~copy of the study that separates operation's investments and~~
17 ~~expenses by interstate and intrastate with the Commission's~~
18 ~~Division of Economic Regulation on or before July 31 of each year.~~

19 ~~(2) A company may file a written request for an extension of~~
20 ~~time with the Division of Economic Regulation no later than July~~
21 ~~31. One extension of 31 days shall be granted upon request. A~~
22 ~~request for Commission approval of a longer extension must be~~
23 ~~accompanied by a statement of good cause and shall specify the date~~
24 ~~by which the report shall be filed.~~

25 Specific Authority: 350.127(2), F.S.

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1 | DOCKET NO. 030405-TL
2 | DATE: June 19, 2003

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4 | Law Implemented: 364.07(2), F.S.

5 | History: New 10/31/93, amended 3/10/96, Repealed.

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-M-E-M-O-R-A-N-D-U-M-

DATE: April 18, 2003
TO: Division of Appeals (Moore)
FROM: Division of Economic Regulation (Hewitt) *CH* *AS* *CS* *102*
RE: Statement of Estimated Regulatory Costs for Proposed Amendments to Rules 25-4.017, F.A.C., Uniform System of Accounts; 25-4.0405, F.A.C., Telephone Directory Advertising Revenues; 25-4.135, F.A.C., Annual Report, and Proposed Repeal of Rules 25-4.1325, F.A.C., Earnings Surveillance Report and 25-4.1357, F.A.C., Annual Separations Cost Study

The foregoing rules refer to the Uniform System of Accounts (USOA) for local exchange companies (LECs) and their reporting requirements. Since the last rule revisions in 1996, all but one small LEC has elected price cap regulation, thereby simplifying reporting requirements.

The proposed amendments would streamline and simplify LEC reporting requirements, update the reference to the most recent USOA, eliminate references to companies to which the rule no longer applies, and update the reference to the revised Commission Form PSC/ECR 018-T, "Annual Report of Local Exchange Telephone Companies."

The Florida Administrative Procedures Act encourages an agency to prepare a Statement of Estimated Regulatory Costs (SERC). However, because the rule changes simplify and reduce reporting requirements, there should be no additional costs other than the costs to promulgate a rule amendment and no significant negative impacts on utilities, small businesses, small cities, or small counties. Therefore, a SERC will not be prepared for the proposed rule amendments.

CH:kt

c: Mary Andrews Bane
Edward Bass
Hurd Reeves